

TAXATION -I
INCOME FROM SALARIES
TEACHER'S NAME- PUJA GUPTA
SEMESTER-IV

RETIREMENT BENEFITS:

1. Gratuity sec10(10)
2. Pension sec 10(10A)
3. Leave encashment sec 10(10AA)
4. Retrenchment compensation sec 10(10B)
5. Voluntary retirement compensation sec 10(10C)

GRATUITY U/S 10(10):

During continuation of service	On termination of service	After death
Government employees and non-government employees.	Government employees and non-government employees	Govt. and non govt. employees
Fully taxable for both type of employees.	In the hand of govt. employee fully exempted. In the hand of non govt. employees taxable but given some exemption	Not taxable in the hand of legal heirs.

Gratuity payable to government employees:

Not taxable fully exempted.

Gratuity payable to non-government employees:

Case 1: covered under the payment of Gratuity Act, 1972:

Amount of exemption will be the least of three alternatives:

- Amount of gratuity received
- Maximum limit rs. 20,00,000
- $15/26$ *salary of last month* number of year job completed excess of 6 months.
Here salary = basic salary + D.A.

Case 2: not covered under the payment of Gratuity ACT, 1972

Amount of exemption will be least of three alternatives:

- Amount of gratuity received
- Maximum limit rs. 20,00,000
- $\frac{1}{2}$ * average salary (on the basis of last 10 month)*
number of year job completed ignore months.

ILLUSTRATION-1

Mr. J retires from his service on 25 Jan 2020 after servicing 30 years 6 months and 5 days. At the time of retirement his basic salary was rs. 9000 p.m. but annual increment fell due on 1 July every year rs. 1,000, D.A. rs. 5,000 (60% forming part of retirement benefits). Commission @ 1% on annual turnover of rs. 12, 00,000. He received gratuity at the time of retirement

rs.8, 00,000. Compute taxable gratuity for the A.Y. 2020-21, assuming that he is (i) government employee, (ii) non-government employee-(a) covered by the payment of gratuity act (b) not covered by the payment of gratuity act.

SOLUTION-

- (i) J is a government employee so the entire amount of gratuity received at the time of retirement will be fully exempted u/s 10(10)(i).
- (ii) Non-government employee
 - (a) Covered under the payment of gratuity act, 1972

Computation of taxable gratuity of Mr. j for the A.Y. 20-21

PARTICULARS	AMOUNT	AMOUNT
Gratuity received		8,00,000
Less: exemption u/s 10(10) (ii) least of three alternatives		
• Actual amount received	8,00,000	
• Maximum limit	20,00,000	
• 15/26*salary of last month* no of year job completed (15/26*14,000*31)	<u>2,50,385</u>	<u>2,50,385</u>
TAXABLE GRATUITY		5,49,615

Salary = basic + D.A.

$$= 9,000+5,000= 14,000$$

(B) Not covered under the gratuity act, 1972

Computation of taxable gratuity of mr. j for A.Y. 20-21

PARTICULARS	AMOUNT	AMOUNT
Gratuity received		8,00,000
Less: exemption under sec 10(10)(iii) least of 3 alternatives		
• Amount received	8,00,000	
• Maximum limit	20,00,000	
• $\frac{1}{2}$ * average salary* complete year of service ($\frac{1}{2}$ * 12,600*30)	<u>1,89,000</u>	<u>1,89,000</u>
TAXABLE GRATUITY		<u>6,11,000</u>

Average salary taken on the basis of last 10 month

Basic salary=

1 march-30 June (4*8000) = 32,000

1 July- 31 December (6*9,000) = 54,000

86,000

Add: D.A. (5,000*10*60%) = 30,000

Add: commission on turnover

(1%*12,00,000*10/12) = 10,000

1,26,000

Average salary= 1,26,000/10 = 12,600

PENSION:

TIME	TYPE OF PENSION	TAX TREATMENT
After retirement	<ul style="list-style-type: none">• Uncommuted (monthly) pension.• Commuted (Lumpsum) pension.	Fully taxable in the hand of government and non-government employee. Government employee fully exempted. In the hand of non-government employee taxable but after given some exemption.
After death	Family pension	Taxable in the hand of legal heir under income from other sources.

ILLUSTRATION-2

MR.G retired from the government service on 31.3.2019 after 25 years of continuous service. After retirement he received rs. 1,20,000 as gratuity and pension rs. 3,000 p.m. on 1.12.2019 he commuted 60% of his pension and received rs. 90,000. Find the taxability of gratuity and pension for the A.Y. 2020-21.

SOLUTION-

Computation of taxable pension for the A.Y. 20-21 relating to the P.Y. 2019-20

PARTICULARS	AMOUNT	AMOUNT
• Uncommuted pension		
1.4.19-30.11.19-(3,000*8)	24,000	
1.12.19-31.3.20-(1,200*4)	<u>4,800</u>	28,800
• Commuted pension	90,000	
Less: exemption u/s 10(10A)(i)		
As he is a govt. employee so fully exempted	<u>90,000</u>	<u>NIL</u>
TAXABLE INCOME		28,800

ILLUSTRATION-3

Mr.A retired from a co. on 31.8.2019 after servicing for 30 years. He was granted pension @ rs. 2,500 p.m. from 1.9.2019. he commuted pension of rs. 1,000 p.m. and received rs. 1,50,000 as the commuted value of pension. Determine the taxable value of pension for the A.Y. 2020-2021.

SOLUTION-

Computation of taxable pension for the A.Y .2020-21 relating to P.Y. 2019-20.

PARTICULARS	AMOUNT	AMOUNT
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<p>IF HE RECEIVED GRATUITY</p> <ul style="list-style-type: none"> • Uncommuted pension(1,500*7) • Commuted pension <p>Less: exemption u/s 10(10A)(ii) 1/3 of total commuted value (1/3* 1,50,000/40*100)</p> <p style="text-align: center;">Taxable pension</p>	<p>1,50,000</p> <p>1,25,000</p>	<p>10,500</p> <p><u>25,000</u></p> <p><u>35,500</u></p>
<p>IF HE NOT RECEIVED GRATUITY</p> <ul style="list-style-type: none"> • Uncommuted pension(1,500*7) • Commuted pension <p>Less: exemption u/s 10(10A)(ii) ½ of total commuted value (1/2*1,50,000*100/40)</p> <p style="text-align: center;">TAXABLE PENSION</p>	<p>1,50,000</p> <p><u>1,87,500</u></p>	<p>10,500</p> <p><u>NIL</u></p> <p><u>10,500</u></p>

LEAVE ENCASHMENT SALARY:

During continuation of service	On termination of service	After death
Government employees and non-government employees	Government employees and non-government employees	Govt. and non govt. employees
Fully taxable for both type of employees	In the hand of govt. employee fully exempted. In the hand of non govt. employees	Nontaxable in the hand of legal heirs

	taxable but given some exemption	
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ILLUSTRATION-4

MR. P an employee of the globe ltd. Retired from the service on 1 January 2020 after servicing for 16 years 7 months. at the time of retirement , he received a sum of rs. 60,000 as leave encashment for unavailed leave of 300days. He was entitled to 40 days leave for each completed year of service. He was getting a salary of rs. 6,000 p.m. at the time of retirement. He had received an increment of rs. 500 with effect from 1 july2019 .Compute the taxable amount og leave encashment for the A.Y. 2020-2021.

SOLUTION:

Computation of taxable leave encashment of mr.p for the A.Y. 2020-21 relating to P.Y. 2019-20

PARTICULARS	AMOUNT	AMOUNT
Leave encashment salary received		60,000
Less: exemption u/s 10(10AA)(ii) least of 4 alternatives		
• Actual amount received	60,000	
• 10*average salary	58,000	
• Maximum limit	3,00,000	
• Average salary* no. of month leave credited(5,800*140/30)	<u>27,067</u>	<u>27,067</u>
TAXABLE LEAVE SALARY		32,933

WORKINGS:

Calculation of last 10 months average salary

March- june(4*5,500)	22,000
July- dec(6*6,000)	<u>36,000</u>
	58,000

Average salary= 58,000/10= 5,800

Calculation of leave credit

Leave availed as per IT rules (30*16)	= 480 days
Less: leave taken	= 340 days
Leave standing credit	= 140 days

Leave taken:

Leave entitled as per co.	= 640 days
Less: leave not taken	= 300 days
Leave taken	= 340 days

RETRENCHMENT COMPENSATION:

SCHEME	TAX TREATMENT
Received under any scheme approved by central government	Fully exempted
received any other scheme	taxable but after certain exemption.

ILLUSRATION-5

The contract of service of mr. X was cancelled on 17.10.2019, after 15 years and 3 months of continuous service and he was awarded a compensation of rs. 3,50,000.

At the time of retrenchment his salary details were as follows:

basic	Rs. 25,000 p.m
D.A.	RS. 12,000 P.M.
bonus	Rs. 50,000 p.a.

Compute taxable retrenchment compensation in the hands of mr.x.

Solution:

Computation of taxable retrenchment compensation in the hand of mr.x

PARTICULARS	AMOUNT	AMOUNT
Retrenchment compensation received		3,50,000
Less: exemption u/s 10(10B) least of 3 alternatives		
• Actual amount received	3,50,000	
• Maximum limit	5,00,000	
• 15/26*salary of last month* complete year of service (15/26*37,000*15)	<u>3,20,192</u>	<u>3,20,192</u>
TAXABLE RETRENCHMENT		29,808

COMPENSATION		
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Salary= basic+ D.A. = 25,000+12,000=37,000

ALLOWANCES:

FULLY TAXABLE	PARTLY TAXABLE (DEPENDS ON ACTUAL EXP.)	PARTLY TAXABLE(DEPENDS ON IT RULES)
D.A.	Conveyance allowance	Children educational allowance
Medical allowance	Helper allowance	Children hostel allowance
City compensatory allowance	Research allowance	Transport(disabled person)
Project allowance	Uniform allowance	Running allowance
Tiffin allowance	Daily allowance	House rent allowance
Servant allowance	Travelling/ transfer allowance	Entertainment allowance
Computer allowance		
Transport allowance(other than disabled person)		

HOUSE RENT ALLOWANCES (HRA):-

COMPUTATION:

PARTICULARS	Am.	Am.	Am.
House rent allowance received			***
Less: exemption u/s 10(13A) rule 2A least of 3 alternatives			
• Actual amount received		**	
• Rent paid	*		
Less: 10% of salary	*	**	
• 40% or 50% of salary		**	**
TAXABLE HOUSE RENT ALLOWANCE			***

NOTES:

- 40% salary in case of non-metro city and 50% in case of metro city (Kolkata, Delhi, Mumbai, Chennai).
- The exemption on HRA is available to those employee who is paid house rent.

ILLUSTRATION:6

MR.X. is an employee of LFT Ltd. Furnishes the following information for the P.Y. 2019-20

Basic salary- rs. 6,000 p.m.

DA.- rs 2,000(60% forming part of retirement benefit)

Commission-1% on annual turnover of rs. 10,00,000 (70% achieved by him) and 2% on annual profit of rs. 3,00,000

Bonus- rs.5,000

Arrear salary received- rs. 7,000

House rent allowance- rs .2,500 p.m. (he takes a rented house at a monthly rent of rs. 2,000)

Compute taxable HRA for the A.Y. 2020-21

SOLUTION:

PARTICULARS	Am.	Am.	Am.
House rent allowance received (2,500*12)			30,000
Less: exemption u/s 10(13A) rules 2A least of 3 alternatives			
• Actual HRA received		30,000	
• Rent paid(2,000*12)	24,000		
Less: 10% of salary	9,340	14,660	
• 50% of salary (93400*50%)		<u>46,700</u>	<u>14,660</u>
TAXABLE HRA			<u>15,340</u>

SALARY =

Basic salary(6,000*12) =72,000

Add: DA (2,000*12*60%) = 14,400

Add: commission on turnover

(10,00,000*1%*70%) = 7,000

= 93,400

TREATMENT OF DIFFERENT TYPE OF ALLOWANCES

NAME	TAX TREATMENT
Dearness allowance	Fully taxable
Medical allowance	Fully taxable

City compensatory allowance	Fully taxable
Project allowance	Fully taxable
Tiffin allowance	Fully taxable
Servant allowance	Fully taxable
Deputation allowance	Fully taxable
Computer allowance	Fully taxable
Transport allowance	a) For disabled employee- maximum 3,200 p.m. b) For other than disabled person- fully taxable
Conveyance allowance	Least of – a) actual allowance b)actual expenditure
Helper allowance	Least of –a) actual allowance b)actual expenditure
Research allowance	Least of- a) actual expenditure b)actual allowance
Uniform allowance	Least- a) actual allowance b)actual expenditure
Daily allowance	Least-a) actual allowance B)actual expenditure
Travelling/transport allowance	Least- a) actual allowance b)actual expenditure
Children educational allowance	Maximum limit: rs. 100 p.m. per child for maximum two children
Children hostel allowance	Maximum limit- rs. 300 p.m. per child for maximum two children
Running allowance	Least of- a) 70% of allowance

	b)maximum limit- 10,000 p.m.
HRA	Shown above
Entertainment allowance	a) Government employee <ul style="list-style-type: none"> • Actual EA • 20% of basic salary • Maximum limit of rs. 5,000 b) Non-government employee- fully taxable.

ILLUSTRATION:7

Mr.K is a sales manager of A Ltd. Posted to agartala. During the P.Y. 2019-20 he receives the following from the company.

Basic salary	Rs. 60,000
DA	10% of basic salary (40% part of retirement benefit)
Entertainment allowance	Rs. 6,000
Conveyance allowance	Rs. 8,000 (50% used for official purpose)
Education allowance for the 2 children	Rs. 3,600
Hostel expenditure allowance for elder son	Rs. 1,200 (@ 600 p.m. from the feb 2020)
Medical allowances	Rs. 3,000(expenditure incurred rs. 2,000)
Lunch allowance	Rs. 4,000
Uniform allowance	Rs. 12,000 (90% for official purpose)
Transfer allowance	Rs. 3,000 (paid on his transfer

	to agartala to Patna on 1.10.19 for meeting his expenditure on transfer rs. 2,700)
Allowance for conducting market research in Tripura	Rs. 20,000(amount spent for the purpose rs. 14,800)
HRA	@ 3,000 p.m. received from employer from 1.10.19 and rent paid by him for the accommodation@ rs. 4,000 p.m.
Helper allowance	Rs. 6,000
City compensatory allowance	Rs. 500p.m.
Servant allowance	Rs. 400 p.m.

Find the gross income from salary of mr. K .for the A.Y. 2020-21.

SOLUTION:

Computation of gross taxable salary of mr. k. for the A.Y. 2020-21 relating to P.Y. 2019-20.

PARTICULARS	AMOUNT	AMOUNT
Basic salary		60,000
Add: allowances		
• DA		6,000
• Entertainment allowance		6,000
• City compensatory allowance (500*12)		6,000
• Medical allowance		3,000

• Lunch allowance		4,000
• Servant allowance(400*12)		4,800
• Conveyance allowance	8,000	
Less: spent for office purpose	<u>4,000</u>	4,000
• Children educational allowance	3,600	
Less: exemption(100*12*2)	<u>2,400</u>	1,200
• Children hostel allowance	1,200	
Less: exemption(300*2*1)	<u>600</u>	600
• Uniform allowance	12,000	
Less: exemption	<u>10,800</u>	1,200
• Transfer allowance	3,000	
Less: exemption	<u>2,700</u>	300
• Medical research allowance	20,000	
Less: exemption	<u>14,800</u>	5,200
• Helper allowance	6,000	
Less: exemption	<u>6,000</u>	NIL
• HRA	18,000	
Less: exemption u/s 10(13A) Rule2a	<u>17,760</u>	<u>240</u>
GROSS INCOME FROM SALARY		<u>1,02,540</u>

Workings:

Calculation of taxable portion of HRA

Actual amount received 18,000

Less: exemption u/s 10(13A) rule 2a least of 3 alternatives

i) Actual HRA received 18,000

ii) Rent paid- 10% of salary (4,000*6)- (62,400*10%)	17,760	
iii) 40% of salary(62,400*40%)	<u>24,960</u>	<u>17,760</u>

PERQUISITES SEC 17(2)

1) VALUATION OF RENT FREE UNFURNISHED ACCOMMODATION U/S 17(2)(i) RULE 3(1)

FOR GOVERNMENT EMPLOYEE:- taxable value is actual licence fee paid by them.

FOR OTHER EMPLOYEE:-

CITY	ACCOMMODATION IS OWNED BY EMPLOYER	ACCOMMODATION IS HIRED BY EMPLOYER
In cities population exceeding 25 lakh	15% of salary is the value of perquisites	Least of 2 alternatives- a) actual rent paid by employer. b)15% of salary.
Exceeding 10 lakh but up to 25 lakh	10% of salary	Same as above
Up to 10 lakh	7.5% of salary	Same as above

2) VALUATION OF RENT FREE FURNISHED ACCOMMODATION:-

Furniture owned by employer	10% of original cost of furniture is taxable.
Furniture hired by employer	Actual hired charged paid is

	taxable.
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3) VALUATION OF PERQUISITES IN RESPECT OF EDUCATIONAL FACILITIES:-

FOR EMPLOYEE:- tax free.

TO THE CHILDREN OF EMPLOYEE:-

Institution owned by employer	Educational cost less than 1,000 p.m. per child is the tax free. Educational cost is more than 1,000 p.m. per child is taxable
Any private institution not owned by employer	Actual school fees paid or reimbursed by employer is taxable.
Scholarship paid by employer	Tax free.

4) VALUATION OF PERQUISITES IN RESPECT OF GAS, ELECTRICITY, WATER PROVIDED BY EMPLOYER.

Owned source of employer	Manufacturing cost to the employer is taxable (market price).
Hired by employer	Hired charge paid by employer is taxable.

TAXABILITY OF PROVIDENT FUND

	Recognized provident fund(RPF)	Unrecognized provident fund(URPF)	Statutory provident fund(SPF)	Public provident fund(PPF)
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Employee's contribution	Qualified for deduction u/s 80c	Does not qualified for u/s 80c	Qualified for deduction u/s80c	Qualified for deduction u/s 80c
Employer's contribution	Exempt up to 12% of salary i.e. excess of 12% is taxable	Exempt for tax	Exempt for tax	Employer does not contribute
Interest credited to PF	Exempt up to 9.5% i.e. excess of 9.5% is taxable	Exempt from tax	Exempt from tax	Exempt from tax

ILLUSTRATION-8

Shri n poddar, an Indian citizen, disclosed the following particulars of his income during the P.Y. 2019-20.

Basic salary @ 12,000 p.m.

DA. 50% of basic salary according to term of employment.

Marriage allowance rs. 500 p.m.

Children education allowance rs. 200 p.m.

Own contribution to recognized providentfunds. 13,600.

Employers' contribution to superannuation fund @7.5% of basic salary.

Employer contribution to recognized provident fund rs. 14,500.

Interest @9 % on the balance in provident fund rs. 2,500.

He was provided with a rent free furnished house in Kolkata for which the employer paid a rent of rs. 3,000 p.m. he was allowed the use of one refrigerator in the house. The original cost of the refrigerator was rs. 15,000 while the written down value was rs. 13,000.

He was paid LIC premium of rs. 12,000, rs. 4,000 and rs. 1,000 on policies of rs. 1,00,000, rs.50,000 and rs. 20,000 on the lives of his own self, his wife and his minor son respectively. The first policy was taken on 1.4.19 and other policies were taken before the current financial year.

Compute the income from salaries for the A.Y. 2020-21.

SOLUTION:

Computation of income from salaries for the A.Y. 2020-21 relating to P.Y. 2019-20.

PARTICULARS	AMOUNT	AMOUNT
Basic salary(12,000*12)		1,44,000
Employer contribution to approved superannuation fund		NIL
Employer contribution to RPF in excess of 12%(14,500-12%*2,16,000)		NIL
Interest credited to RPF in excess of 9.5%		

Add: allowances		
DA(1,44,000*50%)		NIL
Marriage allowance(500*12)		
Children education allowance(200*12)		72,000
Less: exemption(100*12)		6,000
ADD: perquisites u/s 17(2)	2,400	
Rent free furnished accommodation u/s 17(2)(i) rule 3(1)	<u>1,200</u>	1,200
Less: deduction u/s 16		<u>34,980</u>
TAXABLE INCOME FROM SALARIES		2,58,180
		<u>NIL</u>
		<u>2,58,180</u>

Read all the topics very carefully. In this chapter 20 marks are allotted. Read topic like gratuity, leave encashment salary, pension, all allowance and perquisites.

THANK YOU.